

Lazard Australia Equity

Quarterly Investment Option Update
30 September 2020

Aim and Strategy

To achieve total returns (including income and capital appreciation but before the deduction of fees and taxes) that exceed those of the S&P/ASX 200 Accumulation Index by 3% per annum over an investment cycle. The Lazard Australian Equity option takes large active positions, holding generally 25 to 45 securities chosen for their potential to deliver absolute returns over the long term. It is a high-conviction portfolio, but key benchmark risks are also taken into consideration when constructing the portfolio.

Investment Option Performance

To view the latest investment performances for each product please visit:

www.amp.com.au/performance

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	5+ years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	97.2
Cash	0%	2.8

Sector Allocation	%
Communication Services	4.9
Consumer Discretionary	7.4
Consumer Staples	10.0
Energy	9.9
Financials	26.0
Health Care	4.6
Industrials	12.9
Information Technology	3.3
Materials	13.3
Real Estate	1.4
Utilities	3.4

Top Holdings	%
Rio Tinto	4.8
Telstra	4.7
Commonwealth Bank	4.5
CSL	4.1
Woodside Petroleum	4.0

Portfolio Summary

During the quarter, the Lazard Australian Equity Fund returned -4.7%, underperforming the S&P/ASX 200 Accumulation Index which returned -0.4%.

Investment Option Commentary

Contributors

SKYCITY Entertainment (SKC) outperformed in the September 2020 quarter. The company reported FY20 results during the quarter with EBITDA beating consensus estimates by approximately 3%. The most positive feature of the earnings release however, was the outlook commentary. The company is expecting to grow EBITDA in FY21 despite a full year loss of VIP business due to border closures. Cost savings of around A\$50 million and continued growth in SKC's online business are two key positive drivers behind the guidance. The investment manager expects strong earnings growth in the next few years to come as restrictions lessen enabling more patrons to visit SKC's properties.

Detractors

AMP's share price fell over the September 2020 quarter after reaching a high following the completion of the sale of its life interests to Resolution Life of the UK at the end of June 2020. Events during the quarter could be described as unexpectedly dramatic. The company pre-released 1H20 earnings at the end of July 2020 and this was poorly received by the market which in contrast, were very close to their expectations. The full 1H20 result on 13 August 2020 can be described as a lost opportunity by the company. Despite the non-AMP Capital portion of the group trading well below net tangible assets (NTA), instead of buying back shares from its shareholders, the company used A\$460m to repurchase the 15% of AMP Capital from Mitsubishi, paid a special franked dividend of 10cps and announced only a \$200m buyback. This was then compounded by the publication of harassment claims against new AMP Capital CEO, Boe Pahari. After a considerable push by the major shareholders, including themselves, Mr Pahari's promotion was reversed and Chairman David Murray resigned. In their view, AMP remains an overcapitalized company and undervalued company. Based on recent market transactions, the various assets of the group (excluding head office costs) sum to about A\$8.3bn, which is A\$2.47 per share or 85% above the share price. Using a range of scenarios to value AMP they arrive at A\$1.90 on the conservative end and A\$2.65 on more bullish assumptions. This range is well above the current share price

Market Commentary

The S&P/ASX 200 Accumulation Index declined -0.4% during the third quarter after rising 16.5% in Q2. During the quarter, Health Care, Industrials and REITs outperformed, while Energy, Information Technology and Consumer Staples underperformed. On 25 September 2020, the Australian Government announced their intention to repeal responsible lending obligations from March 2021 except for credit contracts and consumer leases. This would replace the current practice of 'lender beware' with a 'borrower responsibility' principle.

Outlook

As of early October 2020, a great deal of uncertainty remains, mostly associated with the behavior of and fight against the virus. Will Australia be able to eliminate or control the spread of the disease, or will repeated lockdowns of varied severity, length and geographic coverage remain necessary? As Australia has built up little natural population immunity, the availability of better treatments and a vaccine is critical – progress on both fronts is encouraging, but certainly not a given. Nations around the world have dealt with the pandemic with various strategies and various levels of success – Australia's global environment clearly depends on how the rest of the world deals with the disease. At present, it appears to us as though the market is pricing in a relatively fast recovery with, they believe, company earnings mostly 'back to normal' by sometime in 2021. This seems on the optimistic side of potential outcomes given longer recovery profiles from downturns historically, and the need for the fiscal deficit to at least decline somewhat from the extreme Q2 2020 levels. Uncertainties remain about the longer-term impact and possibly unintended consequences, if any, of global fiscal and monetary stimulus equivalent to over 25% of world GDP. It is also worth reflecting that pre-COVID-19 equity markets were generally expensive with valuations dispersions between stocks and sectors at levels not seen since the TMT boom in 1999/2000. While markets are down moderately year to date, within the market, valuation dispersion has increased further to record levels. In previous cycles their portfolios have seen large gains in relative performance when extreme valuation dispersions return to long run levels. Historically, they have seen this process starting to take place a few quarters after a peak in equity markets.

Availability

Product name	APIR
AMP Flexible Super	AMP2920AU
AMP Flexible Super - Retirement	AMP8151AU
CustomSuper	AMP3236AU
Flexible Lifetime - Allocated Pension	AMP4406AU
Flexible Lifetime - Super	AMP3236AU

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